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21051624

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State Corporation Commission  
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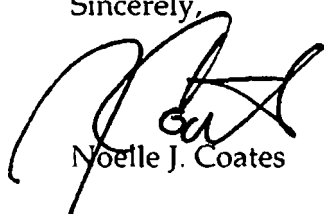
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**Ex Parte: Establishing the rates, terms and conditions of  
a universal fee to be paid by the retail customers of  
Appalachian Power Company  
Case No. PUR-2020-00117**

Dear Mr. Logan:

Pursuant to the Commission's April 21, 2021 Order on Additional  
Proceedings, attached for filing in the above-captioned case is Appalachian  
Power Company's supplemental filing.

Sincerely,



Noelle J. Coates

cc: Raymond L. Doggett, Jr., Esq.  
Andrea B. Macgill, Esq.  
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APCo Exhibit No. \_\_\_\_\_  
Witness: WKC

210510240

**DIRECT TESTIMONY OF  
WILLIAM K. CASTLE  
FOR APPALACHIAN POWER COMPANY  
IN VIRGINIA S.C.C. CASE NO. PUR-2020-00117**

**SUMMARY OF SUPPLEMENTAL DIRECT TESTIMONY OF WILLIAM K. CASTLE**

My supplemental direct testimony seeks to answer the questions posed to the Company by the Commission in its April 21, 2021 Order on Additional Proceedings.

I update the Commission on the Company's Universal Service Fee estimate in light of new eligibility criteria codified in Chapter 308 of the 2021 Virginia Acts of Assembly and including a cap on Percentage of Income Payment Plan (PIPP) costs of \$25 million for APCo. The Company estimates that approximately 20% of its residential customers will qualify for PIPP under the criteria.

I describe two ways in which the \$25 million annual cap on PIPP costs might be implemented.

**DIRECT TESTIMONY OF  
WILLIAM K. CASTLE  
FOR APPALACHIAN POWER COMPANY  
IN VIRGINIA S.C.C. CASE NO. PUR-2020-00117**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

A. My name is William K. Castle. I am the Director of Regulatory Services-VA/TN for Appalachian Power Company (APCo or the Company), and my business address is 1051 East Cary St., Suite 1100, Richmond, Va. 23219.

**Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

A. The purpose of my testimony is to:

- Update the Company's non-bypassable Universal Service Fee (USF) estimate given eligibility criteria codified in Chapter 308 of the 2021 Virginia Acts of Assembly and the Commission's Order.
- Respond to the questions from the Commission in its Order on Additional Proceedings.

**Q. ARE YOU SPONSORING ANY EXHIBITS?**

A. Yes.

- Supplemental Exhibit WKC-1 details the assumptions and calculations used to arrive at the non-administrative costs of the PIPP program, or the PIPP credits.
- Supplemental Exhibit WKC-2 calculates the revenue requirement and Universal Service Fee rate based on these updated assumptions.

**Q. DOES CHAPTER 308 RESOLVE ALL OF THE UNCERTAINTY IN HOW THE PIPP WILL BE IMPLEMENTED OR THE COSTS OF THE PIPP?**

A. No. There are many details of PIPP implementation that are still to be determined. The percentage of eligible customers that enroll, their actual incomes, and the weather still make the actual program cost estimate provided in my testimony uncertain. The

1 imposition of a \$25 million cap, however, does provide certainty with regard to the  
2 maximum annual cost of the PIPP for APCo.

3 **Q. HAS THE COMPANY UPDATED ITS ESTIMATE OF THE ANNUAL COST**  
4 **FOR PIPP GIVEN THE COMMISSION'S ORDER AND THE MODIFICATIONS**  
5 **AND ADDITIONS TO §56-576 AND §56-585.6 OF THE CODE OF VIRGINIA**  
6 **INCLUDED IN CHAPTER 308 OF THE 2021 VIRGINIA ACTS OF ASSEMBLY?**

7 A. Yes. Most significantly, Chapter 308 made eligible all persons or households whose  
8 income does not exceed 150% of the federal poverty level and provided that PIPP-  
9 eligible customers may, to the extent reasonably possible, use existing energy efficiency  
10 or related programs to satisfy the electricity usage reduction objectives. It also limited  
11 the cost of the PIPP program to \$25 million annually for APCo. In addition, the  
12 Commission has clarified that an escrow account, as originally proposed by the Company  
13 is not warranted at this time.

14 **Q. WITH THESE CHANGES, WHAT IS THE COMPANY'S CURRENT ESTIMATE**  
15 **OF ITS UNIVERSAL SERVICE FEE?**

16 A. The Company estimates a USF of \$0.001884/kWh designed to recover \$25.0 million of  
17 PIPP costs. This compares to a USF of \$0.001674/kWh calculated in my direct  
18 testimony. The change in eligibility assumptions and increase in expected residential  
19 bills has driven the annual customer credit estimate from \$17.84 million to over \$25  
20 million using a consistent assumption about participation of eligible customers.  
21 Supplemental Exhibit WKC-1 shows the estimated number of eligible households, their  
22 expected average bills and the resulting PIPP credit. The exclusion of energy efficiency

1 program costs and an escrow account, and the maintenance of a placeholder estimate for  
2 Agency administrative costs of \$0.77 and Company administrative costs of \$0.2 million  
3 results in a total annual program cost of \$25.8 million. With these assumptions, the  
4 Company's PIPP costs are limited to the \$25 million program limit.

5 **Q. WHY DID THE ESTIMATE FOR THE CUSTOMER CREDIT INCREASE?**

6 A. The 150% of federal poverty criterion expanded the estimate of the pool of eligible  
7 customers from 64,521 to 88,544. Additionally, the cost of the Company's electric  
8 service at the start of the PIPP is expected to be higher than the estimate developed in  
9 2020 due to increases in certain rate adjustment clauses.<sup>1</sup> Note that absent an increase in  
10 household incomes or a change in the eligibility criteria, the entire increase in electric  
11 service costs becomes part of the PIPP costs, making the increase in PIPP costs much  
12 greater than the increase in residential rates, on a percentage basis. To illustrate, take a  
13 PIPP participant who has a \$100 a month bill and income that supports a \$90 a month  
14 payment, with a \$10 PIPP credit. If the bill goes up 20%, to \$120 a month, the PIPP  
15 credit will go up by 200% from \$10 to \$30. That percentage will vary across the  
16 spectrum of eligible household incomes, but the principle holds true in the aggregate.

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<sup>1</sup> See the Company's filings in Case Nos. PUR-2018-00048, PUR-2020-000251, PUR-2020-00252, PUR-2020-00258, PUR-2020-00259, PUR-2021-00018, and PUR-2021-00048.

1 **Q. THE COMMISSION ASKED THE COMPANY TO RESPOND TO SEVERAL**  
2 **QUESTIONS, INCLUDED AS APPENDIX A TO ITS ORDER ON ADDITIONAL**  
3 **PROCEEDINGS. WHAT ARE THE COMPANY'S RESPONSES?**

4 A. The Commission asked ten questions of the Company in its Order. The questions, in  
5 most cases paraphrased for brevity, and the Company's responses are as follows:

6 **Q. 1. DOES CHAPTER 308 IMPACT THE WAY(S) IN WHICH THE COMMISSION**  
7 **SHOULD EVALUATE COSTS ASSOCIATED WITH THE PIPP?**

8 A. It is the Company's reading of Chapter 308 that the Commission ensure that funds  
9 collected by the utility from the USF are directed to the Percentage of Income Payment  
10 Fund (Fund), but more to the point of evaluating costs, the Commission is required to  
11 ensure that the utility receive adequate compensation from the Fund, on a timely basis,  
12 for all reasonable costs of the PIPP incurred by the Company. The costs of the PIPP  
13 include the credits applied to customer bills, as determined by the Department of Social  
14 Services (DSS), administrative costs of the DSS and administrative costs of the  
15 Company. The business rules for this process must be developed.

16 **Q. 2. TO WHAT EXTENT HAS CHAPTER 308 CHANGED THE ESTIMATED**  
17 **COSTS OF PIPP?**

18 A. As demonstrated, the Company expects its annual PIPP costs to be \$25 million, reflecting  
19 an increase in the amount of customer credits, the elimination of an estimate for energy  
20 efficiency programs funded through the USF, the elimination of an escrow or reserve  
21 account and the imposition of the \$25 million cap.



**Q. 3. INITIALLY, SHOULD APCO CUSTOMERS PAY A PIPP FEE DESIGNED TO RECOVER THE START-UP COSTS OF THE DEPARTMENT OF SOCIAL SERVICES AND ANY REASONABLE START-UP COSTS OF APCO?**

A. To the extent there is an estimate of start-up costs of the Department of Social Services, the Company does not oppose collecting those costs if required to. As for the Company's own costs, they are not likely to be significant prior to the start of the PIPP, and are also not well understood at this point. The Company requests the Commission authorize deferral of utility administrative and start-up costs associated with PIPP for recovery through the USF once the program is implemented.

**Q. 4. ARE THERE OTHER COSTS THAT SHOULD BE COLLECTED PRIOR TO COMMENCEMENT OF THE PIPP?**

A. The Company is not aware of any additional costs that should be collected prior to commencement of the PIPP at this time.

**Q. 5. DOES \$0.6 MILLION CONTINUE TO BE THE APPROPRIATE AMOUNT TO BE ALLOCATED TO APCO AND USED IN CALCULATING THE USE TO BE PAID BY CUSTOMERS?**

A. The estimate of \$571,000 for administrative costs developed in my direct testimony was based on administrative costs incurred in Ohio for a similar program, and absent additional information, remains, in the view of the Company, a reasonable estimate for the time being. The Company expects that the Department of Social Services develop and adopt rules regarding the allocation of administrative costs and that it will apportion its administrative costs to the participating utilities in an equitable way.

**Q. 6. SHOULD SOME AMOUNT OF THE PIPP FEE COLLECTIONS FROM CUSTOMERS BEGIN PRIOR TO COMMENCEMENT OF THE PIPP?**

A. If the rules that are ultimately developed by the Department of Social Services require the collection of PIPP customer costs prior to the start of the PIPP, for the purpose of building up a reserve or escrow account, then the Company should collect those funds from customers prior to the commencement of the PIPP.

**Q. 7. IF APCO CAN RECEIVE COMPENSATION FROM THE FUND FOR ALL REASONABLE COSTS OF THE PIPP, IS THERE ANY NEED FOR THE COMMISSION TO “DETERMINE THE PROPER RECOVERY MECHANISM FOR [ADMINISTRATIVE] COSTS PURSUANT TO CODE §56-585.6B?**

A. The manner in which the Company receives compensation, from the Fund will need to be determined. It is not clear to the Company whether this will be addressed by the Department of Social Services or the Commission. The Commission may wish to require the utility to conform to the rules adopted by the DSS.

**Q. 8. WHAT RULES MIGHT BE NECESSARY TO ENSURE THAT FUNDS COLLECTED FROM EACH UTILITY'S USE ARE DIRECTED TO THE FUND?**

A. A Commission order requiring the Company to direct funds collected to the USF may satisfy the Commission's requirement in Code §56-585.C. However, there will need to be business rules established to determine how and when those funds are remitted to the USF and what informational requirements will accompany each transfer. It is not clear whether these rules will be established by the Commission or the DSS. The Commission may wish to require the utility to conform to rules adopted by the DSS.

**Q. 9. ARE COMMISSION RULES NECESSARY TO ENSURE THAT UTILITIES  
RECEIVE ADEQUATE COMPENSATION, ON A TIMELY BASIS, FOR ALL  
REASONABLE COSTS OF THE PIPP?**

**A.** Rules regarding the information requirements provided by the utility to the DSS Fund should be developed, as well as informational requirements the Commission expects of the utility when making its determination that any costs it is seeking recovery of are reasonable. The Commission may wish to require the utility to conform to the rules adopted by the DSS.

**Q. 10a. SHOULD THE COMMISSION REQUIRE REPORTING BY APCO ON  
WHETHER PARTICIPANTS HAVE REDUCED THE AMOUNT OF  
ELECTRICITY USED?**

**A.** Chapter 308 directs that PIPP participants utilize existing energy efficiency or related programs approved by the Commission and existing and available federal, state, local, or non-profit programs. The Company cannot provide meaningful reporting on individual participants given the variety of programs that they may participate in and that the Company may not have information about. The Company can provide the Commission with “before and after” views of aggregate consumption of PIPP participants that may provide the Commission with the information necessary to make conclusions about whether the energy reductions objectives of the PIPP are being met.

**Q. 10a. WHAT IS THE COMPANY'S OPINION ON: REPORTING THE NUMBER OF PIPP-ELIGIBLE CUSTOMERS?**

A. The Company does not have income data for its customers. Therefore the Company could only provide estimates of the number of PIPP-eligible customers.

**Q. 10b. THE NUMBER OF PIPP PARTICIPANTS AND IF DIFFERENT FROM THE NUMBER OF PIPP-ELIGIBLE CUSTOMERS, THE REASONS WHY?**

A. The Company can report the number of PIPP participants but would be unable to report the reasons why PIPP-eligible customers did not choose to participate. The Company expects the number of PIPP participants will always be less than the number of PIPP-eligible customers.

**Q. 10c. THE COMPANY'S COST TO ADMINISTER THE PROGRAM?**

A. The Company can report its cost to administer the program.

**Q. 10d. LISTING AND DESCRIPTION OF MAJOR PIPP ADMINISTRATION COST CATEGORIES?**

A. The Company expects to provide the Commission with this information.

**Q. 10e. ENERGY SAVING EFFECTUATED THROUGH THE PIPP?**

A. Similar to the response to 10a, the Company may only be able to provide the Commission with aggregate before and after PIPP views of energy savings. The Company is not involved in the implementation of energy efficiency measures from federal, state, local, or non-profit programs.

**Q. 10f. THE USE OF FEDERAL, STATE, LOCAL, OR THIRD-PARTY FUNDING  
TO OFF-SET COSTS OF THE PIPP?**

A. It is the Company's understanding that, at least initially, the PIPP will not include any costs associated with energy efficiency as PIPP customers may use, to the extent reasonably possible, existing programs. To the extent that it is understood how much of the existing programs are addressing PIPP requirements, this amount could be quantified and considered a cost of PIPP not directly administered by DSS. It is not understood at this point whether that information will be available. Further, it may be hard to say with precision whether those customers who participate in PIPP would have received energy efficiency assistance from one or more of the existing programs in the absence of PIPP.

**Q. 10g. HOW AND WHEN SHOULD SUCH REPORTING OCCUR?**

A. Because the program is new, some items should be reported with more frequency than other items, to validate assumptions. For instance the number of participants should, at least initially, be reported with more frequency than energy savings associated with the programs.

**Q. ARE THERE OTHER POSSIBLE ISSUES THAT THE COMPANY WISHES TO  
AIR AT THIS TIME?**

A. Yes. The implementation of the \$25 million cap on annual costs needs to be understood by all parties. Costs, including administrative costs, cannot exceed \$25 million. It is not clear whether the USF may collect more than \$25 million in a year. Once the USF is set, as a \$/kWh rate, it is impractical to limit the collection to \$25 million, especially if it is designed to collect at or near that amount, given the vagaries of weather and associated

1 consumption. Similarly, if USF revenues are less than necessary, the subsequent period  
2 will require an out-of-period adjustment to collect those costs, possibly exceeding the \$25  
3 million limit. Finally, the \$25 million PIPP cost limit has at least two ways to be  
4 implemented. First, during the course of program-year, as the \$25 million cost-limit  
5 approaches, and giving an allowance for remaining administrative costs, the amount of  
6 costs up to, but not exceeding that amount could be pro-rated to participants on the basis  
7 of their credit amount. Operating the cap in this way would seem incongruent with the  
8 requirement to limit customer bills to less than 6% or 10% for non-electric and electric  
9 heating customers, respectfully. The other option would be to annual limit participation  
10 in PIPP so that the cap will not be exceeded.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A. Yes.**

APCo Exhibit No. \_\_\_\_\_  
 Witness: WKC  
 Supplemental Exhibit WKC-1

APCo PIPP COST ESTIMATE - UPDATED TO REFLECT 150% OF FEDERAL POVERTY GUIDELINES ELIGIBILITY											
Midpoint	Income Strata	% <sup>1</sup>	% Eligibility based on household size	Eligible Households	Electric Heat Households	Non-Electric Heat Households	Annual Br/Electric Heat	Annual Br/Non-Electric Heat	PIPP Credit Electric Heat	PIPP Credit Non-Electric Heat	PIPP Credits (\$)
5,000	< \$10,000	5.23%	100%	23,615	14,162	9,453	1,969	1,542	1,469	1,242	32,540,552
12,500	\$10,000-\$14,999	3.63%	100%	16,403	9,837	6,566	1,969	1,542	719	792	12,270,260
17,500	\$15,000-\$19,999	3.60%	100%	16,267	9,755	6,512	1,969	1,542	219	492	5,337,457
22,500	\$20,000-\$24,999	3.83%	72%	12,433	7,456	4,977	1,969	1,542	-	192	953,678
27,500	\$25,000-\$29,999	3.69%	64%	10,654	6,389	4,265	1,969	1,542	-	-	-
32,500	\$30,000-\$34,999	3.77%	28%	4,800	2,879	1,921	1,969	1,542	-	-	-
37,500	\$35,000-\$39,999	3.63%	10%	1,639	983	656	1,969	1,542	-	-	-
42,500	\$40,000-\$44,999	3.93%	9%	1,661	996	665	1,969	1,542	-	-	-
47,500	\$45,000-\$49,999	3.69%	6%	1,072	643	429	1,969	1,542	-	-	-
52,500	\$50,000-\$59,999	6.77%	0%	-	-	-	1,969	1,542	-	-	-
				88,544	53,100	35,444					
Participation Assumption				49.00%							\$ 51,101,947
											\$ 25,039,954

Household Distribution	
Residents	% of Households
1	28.1%
2	34.8%
3	15.1%
4	12.7%
5 or more	9.4%
Household Size 150% of HHS Poverty Guidelines	
1	\$ 19,320
2	\$ 26,130
3	\$ 32,940
4	\$ 39,750
5 or more	\$ 46,560
APCo Va Residential Households	451,312
Annual Electric Heat kWh	14,984
Annual kWh Non-Electric Heat	11,586
kWh rate assumption (2022)	\$ 0.125
Monthly Customer Charge	\$ 7.96
PIPP eligible Electric Heat kWh	795,650,400
PIPP eligible Non-Electric Heat kWh	409,945,304
P.P.P-eligible kWh	1,205,595,704
P.P.P Participant kWh	590,741,895

<sup>1</sup> <https://datausa.io/profile/geo/virginia>

<sup>2</sup> <https://www.statista.com/statistics/242189/distribution-of-households-in-the-us-by-household-size/>

<sup>3</sup> <https://www.medicaidplanningassistance.org/federal-poverty-guidelines/>

APCo Exhibit No. \_\_\_\_\_  
 Witness: WKC  
 Supplemental Exhibit WKC-2

Line	Source	Revenue Requirement Elements	Amount
1	From Supplemental Exhibit WKC-1	Annual PIPP Customer Benefit	\$ 25,039,954
2	Assumption	APCo Administrative Expenses	\$ 200,000
3	Order	Establishment of Escrow	\$ -
4	Assumption	APCo Share of Agency Administrative Expenses	\$ 570,904
5	Chapter 308	APCo Share of Weatherization Costs	\$ -
6		Revenue Requirement	\$ 25,810,858
7	Chapter 308	Maximum	\$ 25,000,000
8	PIPP kWh/Annual Billing kWh x Revenue Requirement	PIPP not collected from Participants	1,112,733
8		Total Billed Amount	\$ 26,112,733
<u>Billing Determinants</u>			
9	2022 Assumed Billed kWh	Annual Billing kWh	13,863,060,400
10	Exhibit 1	PIPP kWh	590,741,895
11		Non-PIPP kWh	13,272,318,506
12	Total Billed Amount/Annual Billing kWh	Universal Service Fee (\$/kWh)	\$ 0.001884



210516246

# CERTIFICATE OF SERVICE

I hereby certify that on this 12<sup>th</sup> day of May 2021 a true copy of the foregoing supplemental filing was delivered by electronic mail to the following:

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A handwritten signature in black ink, appearing to be 'SCM', is written over a horizontal line.